House of Commons

Environmental Audit Committee

Green Jobs and Skills: Government Response to the Committee's Second Report

First Special Report of Session 2009–10

Ordered by the House of Commons to be printed 9 March 2010

HC 435
Published on 15 March 2010
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including substantive press notices) are on the Internet at: www.parliament.uk/eacom/

A list of Reports of the Committee from the current Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are: Gordon Clarke (Clerk), Simon Fiander (Second Clerk), Tim Bryant (Committee Specialist), Edward White (Committee Specialist), James Bowman (Senior Committee Assistant), Susan Ramsay (Committee Assistant) and Steven Everett (Sandwich Student).

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First Special Report

The Environmental Audit Committee published its report on *Green Jobs and Skills* on Wednesday 16 December 2009 as HC 159-I and -II. The Government's Response to the Committee's Report was received on Tuesday 2 March 2010 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

Appendix—Government response

Introduction

The Government welcomes the Environmental Audit Committee's focus on Green Jobs and Skills, and is grateful to the Committee and to all those who gave evidence in the preparation of this report.

The Government agrees with the Committee that the employment opportunities arising from the global shift to a low carbon resource efficient economy represent a major economic opportunity for the UK. Maximising the UK's potential for growth and job creation in this area is a cross-Government priority.

The Government's responses to the conclusions and recommendations of the report are set out below.

Committee Recommendations and Responses

The Government's response to the Committee's individual recommendations is set out below:

Current Policy

1. The Government should urgently increase the amount of money that contributes to the overall green stimulus by 'greening' more of its current spending plans and ensuring access to European Investment Bank capital; by doing so it will help create home markets and develop first mover advantage. (Paragraph 17)

The Government agrees with the Committee that Government expenditure has an important role to play in supporting development of the low carbon economy. Indeed since the Government's oral evidence session in November spending has increased. Support for the development of the low carbon sector played an important part in stimulus measures set out in Pre-Budget Report 2009, where the measures announced make available over £1.4 billion of additional support for low carbon industries and investment.

The Government is taking steps to improve access to the package of European Investment Bank (EIB) lending announced in Budget 2009, to enable up to £9 billion of investment in UK energy projects, comprising EIB direct lending and matched private sector lending. In November, the EIB signed deals with three banks to launch an intermediated lending scheme to small and medium-sized UK renewable projects, with an initial focus on onshore wind.

Furthermore, the 2009 Pre-Budget Report announced the Government's intention to invest €100 million (£90 million) in the 2020 European Fund for Energy, Climate Change and Infrastructure, to be overseen by Infrastructure UK. This will establish the UK as a core sponsor of the Fund, alongside the EIB, enabling the UK to build on an already strong relationship with the EIB, and facilitate more support for vital energy projects. The innovative, diversified fund is intended to act as a model for the introduction of new private sector equity investment into key sectors including wind, biomass, gas storage, transmission and CCS. The 2020 Fund will soon start to provide equity to low-carbon infrastructure of national importance and is the fastest route open to support these projects. The Fund plans to attract up to €1.5 billion of equity from a range of investors and has up to €5 billion (£4.5 billion) of associated debt co-financing waiting to be deployed.

2. The Government must provide industry with a clear and stable long-term policy framework to guide them through the low-carbon transition with enough detail to enable them to secure investment. Business needs to be confident that financial incentives and regulation designed to promote low-carbon industries will be maintained. In addition a bipartisan political approach should be sought wherever possible. (Paragraph 22)

The Government agrees that a clear, long-term policy framework is essential to delivering action on climate change, in particular by enabling businesses to make the necessary major investments. The Government set out a clear, long-term policy framework in the Climate Change Act 2008. The Act introduces both a long-term binding target of an 80% reduction in emissions by 2050, and legislative carbon budgets to clearly set out the path to 2050. The UK is the first country in the world to set such targets in legislation.

The Low Carbon Transition Plan, published in July 2009, sets out the policies which will enable the UK's 2020 targets to be met. This includes emission reductions of 34% on 1990 levels by 2020 under a 20% EU emission reduction target. The policy framework set out touches on all sectors of the UK economy and society, including the power sector, industry sectors & businesses, homes and communities, transport, farming, and the public sector.

High-level targets are necessary but not sufficient to drive the investment needed to enable the transition to a low carbon economy. Government policies provide detail in specific areas to enable businesses to invest with confidence—including the Renewables Obligation (RO), EU Emissions Trading System, Climate Change Levy, Climate Change Agreements and the CRC Energy Efficiency Scheme. Additionally, the Household Energy Management Programme (HEM) aims to help the UK achieve a 29% reduction in CO2 levels by 2020 (compared with 2008) and includes a range of long-term measures such as smart metering, the Renewable Heat Incentive (RHI), Feed-in Tariffs (FITs), and Carbon Emissions Reduction Target (CERT).

3. The Government must remove barriers and provide both financial and non-financial incentives for the faster development of all the low-carbon sectors of the economy highlighted by the Committee on Climate Change. (Paragraph 27)

As set out in the UK Low Carbon Industrial Strategy, addressing barriers and market failures is a central part of Government's role in enabling the transition to a low carbon economy. The Climate Change Committee identified a number of priorities for further action—including: 1) decarbonisation of the energy supply (including wind, nuclear, carbon capture and storage), 2) energy efficiency measures at home and at work and 3) reducing transport emissions through new technologies. Measures being taken in each sector include:

1) Decarbonisation of the energy supply

The Renewable Energy Strategy (RES) set out the high level framework to enable a seven-fold increase in renewable energy over the coming decade through greater financial support, swifter delivery and a stronger push on new technologies and resources. The RES also established the Office for Renewable Energy Deployment (ORED), with a clear remit to address delivery issues across a range of deployable renewable energy technologies.

The UK is leading international efforts to develop CCS; PBR announced that the Government is substantially increasing its commitment to this important technology in order to fund four demonstration projects; we intend to phase in these projects over the period 2014–18. And in the nuclear sector Government is doing everything it can to facilitate new build here in Britain. For example, the Nuclear Advanced Manufacturing Research Centre (NAMRC) which will be key to the development of the nuclear supply chain in the UK. The Centre will address the skills and capability barriers of UK-based companies. It will seek to raise the quality of products being produced by UK companies to ensure they meet the required standards of the nuclear industry in a short period of time.

2) Energy efficiency measures at home and at work

In addition to the HEM programme outlined under recommendation 2, DECC provides grant funding to the Energy Saving Trust (EST) to cut greenhouse gas emissions by promoting the sustainable and efficient use of energy and a low carbon lifestyle to the public. Government also has a range of policies in place to support emission reduction from businesses and public sector organisations, including capping emissions from the largest emitters through the EU Emissions Trading System, incentivising emissions reductions from larger energy users (in particular through the CRC Energy Efficiency Scheme and Climate Change Agreements), providing information and advice through the Carbon Trust and Business Links and providing financial support (e.g. through the Enhanced Capital Allowance scheme and interest free loans for SMEs).

3) Reducing transport emissions through new technologies

We have announced over £250 million of funding to encourage the development of an early market in ultra-low carbon vehicles, most of which will be used to reduce the cost of vehicles by around £2,000 to £5,000 for consumers from 2011 at the latest. Up to £30 million will be used to support charging infrastructure installation in a number of key areas in the UK, encouraging innovation and interoperability. The Plugged in Places scheme, which was launched in November 2009, has seen strong interest from Local Authorities. A new cross-Government team has been established—the Office for Low Emissions Vehicles (OLEV)—which brings together the key policy interests of transport, environment and business into a single team focused on delivery.

4. Increased investment in renewables and low-carbon industries depends on a stable carbon price at a sufficiently high level. The Government should take steps to ensure that a strong carbon price signal will encourage the investment needed to drive the low carbon transition. (Paragraph 31)

The UK Low Carbon Transition Plan sets out how the Government is seeking to create and maintain the right conditions for investment in low-carbon technologies and innovation. At the heart of the plan is the EU Emissions Trading System (EU ETS) which sets a limit or "cap" for emissions and creates a price for carbon.

The carbon price creates incentives for firms to invest in low-carbon technologies, however, the carbon price and its long-term certainty is one of many, and not the most significant factor, that affects investment decisions in low carbon industry and electricity generation. Gas price volatility and its relationship to electricity price is a key driver, as well as uncertainty around future electricity demand, impact of renewables, the oil price, construction and capital costs and capacity factors. Providing greater carbon price certainty through a price floor is therefore not a panacea and will not necessarily lead to the required low carbon investment. Moreover, as carbon can be bought and sold in an EU wide market, policies on carbon pricing will have to be implemented on a multilateral basis. This is likely to become increasingly the case as our vision for a global market of linked emission trading schemes is realised.

The Government believes that the EU ETS remains the right mechanism to deliver a carbon price which investors can have confidence in. One of the most effective way of strengthening the carbon price signal is by tightening of the EU emission cap. Our efforts will now be focussed on taking forward the work agreed at Copenhagen to secure an ambitious legal treaty this year. The UK has already committed to tightening of the EU emission reduction cap further as part of a possible EU wide move from 20% to 30% emissions reductions in 2020, in the context of a legally binding international agreement. In addition, we are looking at all the options in our Energy Market Assessment by undertaking a methodical assessment of what market reform may be required to bring on the investment needed, and we will set out initial findings alongside the Budget.

Where are the green jobs?

5. To inform its activist approach the Government should build on the work of the Committee on Climate Change and the Low Carbon Industrial Strategy to reassess the number of new jobs that will be created in the move to a low-carbon economy and provide more robust data on where these jobs will come from and why. (Paragraph 35)

The Government agrees that robust data on the low carbon economy are important, particularly to estimate the net impact on employment of the transition to a low-carbon economy. The March 2009 work by Innovas,[1] commissioned by BERR, provided an assessment of a Low Carbon and Environmental Goods and Services (LCGES) sector. It estimated that in 2007–08 the UK LCEGS sector was worth over £106 billion and employed 880,000 people. Employment was projected to grow to over a million by the middle of this decade. Our aim is to measure economic activity and estimate jobs within this wide sector to enable the UK to identify shifts in employment and opportunities in the transition to a low carbon economy.

The sectoral assessment provides a view of activities that can be classified as 'low-carbon' or 'environmental'. However, it will not capture all activities across the economy that are reducing carbon emissions, such as some energy efficiency measures that are more difficult to identify as they are achieved through behavioural change leading to different ways of working. The transition to a low carbon economy will require a 'greening' of the whole of the economy. As such, all jobs will need to be 'greened' to some extent. It is therefore difficult to establish an agreed definition of a 'green job' which captures the breadth of this change, and hence difficult to measure the change towards, or expectations of, 'greener' employment. However, analysis such as that done by Innovas sets down a useful sectoral marker which will inform how a move to a low carbon economy is impacting the labour market.

Government also agrees that data on the size of low carbon industries and employment are kept current where practicable, along with forecasts of where the growth and employment opportunities might be within key sectors. Government is working to ensure that data on the scale and scope of this sector are kept up-to-date to remain relevant and effective in supporting policy development in this area. This includes, in conjunction with wider Eurostat initiatives, the Office for National Statistics conducting a feasibility study in 2010 to specify an environmental goods and services industry definition identify providers and construct a survey to gather data.

1 http://www.berr.gov.uk/whatwedo/sectors/lowcarbon/marketintelligence/page50106.html
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6. The Government should undertake research in partnership with trades unions, employers and Regional Development Agencies to gain a broader understanding of the impact of any job displacement resulting from the move to a low-carbon economy and to develop strategies to mitigate these effects. (Paragraph 41)

The Government agrees that it is important to understand job displacement. Ensuring a fair transition is a key part of the Low Carbon Industrial Strategy and Government is committed to doing all it can to ensure a fair distribution of costs and benefits in the transition to a low carbon economy. To this end Government established the Forum for a Just Transition to provide advice to ministers on national, regional and local impacts for all sections of society. The Forum includes representatives from Central Government, national, regional and local bodies, Trade Unions, business organisations, and third sector bodies.

The Forum will consider issues such as the capacity within existing industries to develop the knowledge, skills and business practices to benefit from the move to a low carbon economy.

The first Forum meeting that was held in December 2010 brought together key stakeholders to discuss the impact of the low carbon transition on different regions of the UK based on preliminary analysis of the issue. The next forum meeting on 10 March is due to discuss green jobs and skills.

7. The Government needs to do more to link its policies on tackling poverty and unemployment with the green agenda. The forthcoming DWP White Paper provides an opportunity for the Government to embed this thinking within its employment policy. (Paragraph 45)

The Government is committed to maximising the job opportunities from growth in the Low Carbon Environmental Goods and Services sector and to help unemployed people take advantage of them.

DWP's Future Jobs Fund[2] aims to create up to 10,000 'green jobs'.[3] The Future Jobs Fund is running in monthly assessment rounds and to date the DWP has agreed to fund just over 3,600 'green jobs' which is just under a third of all jobs for these rounds.

The DWP is working closely across government in order to ensure that departments make full use of the Future Jobs Fund and the potential to create sustainable 'green jobs' for 18–24-year-olds and people from unemployment hotspots. It has also worked closely with Groundwork[4] to create a large national bid that will provide green jobs across the country. The Future Jobs Fund is still open for bidding and the DWP will therefore be encouraging more bids to create 'green jobs' to the fund.

2 http://campaigns.dwp.gov.uk/campaigns/futurejobsfund/index.asp

3 For the purposes of this fund a 'green job' can be defined as one that provides a good or service that helps move in the economy to lower carbon emissions and greater resource efficiency. This includes jobs in environmental sectors (including recycling, waste management, environmental consultancy and monitoring), renewable energy technologies (including wind, wave, geothermal and biomass) and emerging low-carbon sectors (such as alternative fuels, CCS, carbon finance and building technologies). Further examples of sectors can be found in the following report commissioned by the Department for Business, Innovation and Skills: www.berr.gov.uk/files/file50253.pdf. http://campaigns.dwp.gov.uk/campaigns/futurejobsfund/pdf/fjf-bid-assessment.pdf

4 http://www.groundwork.org.uk/what-we-do/major-initiatives/future-jobs-fund.aspx

The Young Persons Guarantee[5] launched in January 2010 to provide guaranteed training, or work experience to all 18–24-year-olds claiming Jobseekers Allowance for six months, offers young people the opportunity to apply for new jobs created through the Future Jobs Fund (FJF).

8. We recommend that the Government immediately and substantially increases the scale and speed of its programmes to improve the energy efficiency of existing buildings, and make this the UK's number one priority for green fiscal stimulus. The Government must ensure that a workforce is developed to enable the work on energy saving to be carried out and that it is equipped with all the necessary skills. (Paragraph 51)

Through the Government's Carbon Emissions Reduction Target (CERT) scheme (which began in 2002), suppliers have cut the number of houses without cavity wall insulation by a third—from 8 million to around 5.5 million—and have cut by half the number of houses without loft insulation from 2 million to almost 1 million. Moreover, the total CERT investment from suppliers in improving household energy efficiency will be around £3.2 billion from 2008 to 2011. During 2009 the Government increased the size of the CERT target by 20%. In addition, we are currently consulting on extending the programme for a further 21 months to the end of 2012 with a strong focus on insulation. We expect the extension to drive more than £1.8 billion of additional investment and to benefit 1.5 million more households.

The recently published Household Energy Management strategy sets out the Government's plans for accelerating energy efficiency in homes and for ensuring that the skilled workforce exists to deliver our objectives. The strategy brings together a number of policies to create a simple consumer offer to help householders save money on their energy bills, improve the comfort of their homes and reduce their carbon emissions. We have set ourselves interim milestones:

- by 2011, to have insulated a further 6 million homes;
- by 2015, for all lofts and cavities to be insulated, where practical; and
- by 2020, for up to 7 million homes to have had the opportunity for more significant 'whole house' changes and all homes to have smart meters.

We are looking to further develop our understanding of the barriers to developing skills for key low carbon sectors, and how to overcome them. As set out later in this response, we intend to launch a consultation on these issues in the spring of 2010.

5 http://research.dwp.gov.uk/campaigns/futurejobsfund/youngpersons.asp

Skills for the Transition

9. The Government must put employer participation at the heart of its changes to the skills system. (Paragraph 60)

In November 2009, Skills for Growth: The National Skills Strategy signalled how the skills system will better anticipate and respond to employer needs in priority sectors of the economy for future economic growth. A number of employer-led measures hold particular importance for the transition to a low carbon economy. They include:

- looking to the employer-led UK Commission for Employment and Skills to produce an Annual Strategic Skills Audit as the basis for identifying current and future skills needs and priorities;
- looking to the Skills Funding Agency to focus more of the skills budget on those national priorities and on areas of the economy which can do most to drive economic growth, and ceasing to fund training that is unresponsive to employer need and contributes least to national priorities;
- offering employers the opportunity to influence directly the content and delivery of skills for their sector through National Skills Academies (NSAs) and their Specialist Networks. There are now 16 NSAs either in operation or development. We are currently undertaking a fifth competitive bidding round for NSAs;
- piloting a Joint Investment Programme with employers at advanced technician and associate professional levels in areas key to economic recovery, by re-prioritising funds within Train to Gain, with a cash match from business; and
- working with employers through their SSCs, and with the UK Commission, to substantially reduce the number of SSCs and, through clustering and consolidation, achieve a better fit with emerging sectors of the economy, while keeping employers at the heart of the skills system.

A **Strategic Advisory Group** of leading edge employers was formed to help Government develop the skills contribution for the Low Carbon Industrial Strategy (July 2009). That group continues to advise Government on the development of a Low Carbon Skills Strategy, on which we plan to consult in the Spring, with a view to publication later this year. Employers will be the primary audience for this consultation.

10. The Government must establish a leader for the green skills agenda to deliver the skills needed for the low-carbon transition, to coordinate on removing barriers in the current system and to maintain a focus on the current environmental skills. (Paragraph 65)

The Government agrees that leadership is needed at a number of levels in the skills system if we are to maintain focus on developing, raising demand for, and delivering the skills needed for the transition to a low carbon economy. The cross sector nature of low carbon skills requires a coordinated approach at each level.

At Government level a **High Level cross-Government Forum** was established to align skills policy thinking for the *Low Carbon Industrial Strategy*. That group has recently been enlarged to include a wider range of Government departments and strategic skills partners, with a view to producing a Government-wide consultation document on the *Low Carbon and Resource Efficient Skills Strategy* in the Spring, and eventually a skills strategy later this year. The consultation will focus on identifying priority skills actions and overcoming barriers to progress in each of the emerging low carbon 'sectors'. Leadership of this cross-Government effort is being provided jointly by BIS and DECC.

A number of SSCs and other sector bodies are also working collaboratively to provide leadership on different aspects of the low carbon skills agenda, or in specific low carbon sectors, for example:

- all SSCs have come together under the joint leadership of Cogent and Energy and Utility Skills to coordinate the alignment of **low carbon skills initiatives** across the economy and the SSC network;

- 11 SSCs and 1 ITB have formed a steering group to deliver a **Low Carbon Cluster Report** to inform the UK Commission's first Strategic Skills Audit;

- 8 SSCs and 1 ITB have formed a steering group to develop a **Renewable Energy Skills Strategy**; and

- 4 SSCs and a range of 3rd sector partners and employer bodies have formed a steering group to support and shape the skills element of DECC's **Housing Energy Management Strategy**.

Looking forward, both the **Joint Investment Fund** and **NSA Round 5** provide further opportunities for collective employer leadership of the changes needed to skills delivery in key emerging sectors of the economy, like low carbon.

11. In its role to assess demand and prioritise sectors for extra funding, the new Skills Funding Agency must take account of the need to develop skills in sectors recognised as vital in the low-carbon transition. (Paragraph 68)

The Skills Funding Agency (SFA), which is operating in shadow form and will be fully operational on 1 April, will be an agency of the Department for Business, Innovation and Skills (BIS). It will be much closer to the department than its predecessor, the Learning and Skills Council, ensuring a swifter response to policy imperatives such as the low carbon agenda.

The Skills Funding Agency will be responsible for funding all post-19 learning in England, excluding higher education. The agency's main function will be to direct public funding quickly and efficiently to colleges and training organisations, in response to individual and employer demand. Regional Development Agencies will work closely with networks of colleges, universities and other training organisations to get their input to regional strategies and priorities and to help them to align their courses and skills offers accordingly.

Following this transitional year, national skills priorities identified by the UK Commission for Employment and Skills, and those set out in the regional strategies, will be agreed by BIS and confirmed in the annual ministerial *Skills Investment Strategy*, against which the Skills Funding Agency will fund colleges and training organisations.

It will continue to be important for Regional Development Agencies to work with their partners and employer networks to encourage demand for the priorities, and sufficient high quality training to meet that demand. In this way, as new and established businesses grow to meet the opportunities in the new low carbon economy, the new adult skills system will ensure they are able to get the skilled workers they need in the right place and at the right time.

An important part of how we seek to focus skills investment on national priorities will be through a pilot **Joint Investment Programme**, for which we will be seeking expressions of interest in March 2010. It will involve employer match-funding for selected SSC and ITB proposals addressing specific technical skills needs in areas key to economic recovery. It will also promote collaborative action between SSCs and ITBs, and collective action by employers and by colleges and training organisations, to develop skills solutions that cut across traditional sector boundaries. Addressing low carbon skill issues could be an example of innovative collaborative action of this type. Over time, Government anticipates the combined fund growing to £100 million per year, including a £50 million or more cash match from employers, and £50 million from the Skills Funding Agency.

12. Government must use the first National Skills Audit to provide a comprehensive assessment of current and future gaps in low-carbon skills. The results of this could provide the basis for any future development of the green skills strategy. (Paragraph 72)

The UK Commission's first National Strategic Skills Audit is due for publication in March 2010. The Audit will review evidence of current skills mismatches in England and consider the implications for current and future skills priorities and occupational standards. It will provide valuable evidence on strategic skills priorities to help individuals, employers and training providers take well informed decisions. At the same time, Regional Development Agencies have been developing their first regional skills priorities statements for 2010/11 with their regional and sub-regional partners. These statements are living documents and will be continually refined to take account of developments including the UK Commission's audit.

The Government will be publishing a formal response to the Audit in due course. The BIS/DECC consultation on a Low Carbon and Resource Efficient Skills Strategy is planned to issue [mid March]. This will build on the Audit by drilling more deeply into each of the low carbon sectors, drawing out skills priorities and barriers to progress, with a view to publishing a full **Low Carbon and Resource Efficient Skills Strategy** later this year to accelerate priority skills solutions in those sectors where growth is strongest.

13. By establishing a leader for the green skills agenda the Government could provide an opportunity to deliver green skills across all sectors. This will be important as green skills must eventually be mainstreamed throughout the whole economy. (Paragraph 75)

The **Low Carbon and Resource Efficient Skills Strategy** consultation will look at skills needs across the economy, in each low carbon sector. It will also consider how we further develop the framework set out in *Skills for Growth* to best deliver the skills for low carbon and resource efficient growth across the economy. It will look at skills in a range of key sectors and cross-cutting themes:

- decarbonising the power industry;
- decarbonising industry and the food chain through resource and energy efficiency;
- manufacturing sectors that are key opportunities in the low carbon economy;
- a low carbon transport system;
- decarbonising existing and new buildings; and
- equipping UK management and leadership to seize the opportunities and deliver the requirements of a low carbon economy.

Department for Business, Innovation and Skills

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